

August 10, 2004

Mr. Jim Keselburg  
Regional Manager  
Sierra Nevada Region  
Western Area Power Administration  
114 Parkshore Drive  
Folsom, CA 95630

**Re: Comments on Notice of Proposed Power, Transmission, and Ancillary Services Rates, Federal Register Notice, May 12, 2004, pages 26370 to 26378**

Dear Jim,

Eleven (11) Northern California Power Agency (NCPA) members that are Non-Direct Connect (NDC) Western Customers<sup>1</sup>, who share a combined Base Resource share of 26.03%, submit the following comments on Western's post 2004 rate proposal. Our comments focus on the need to develop mitigation strategies to address the cost impact differential of Western's proposed transmission rates between direct and NDC customers.

We support a change to the proposed rate design to avoid the stacking of transmission costs for the delivery of Federal power. Our objectives include ensuring that CVP generation is optimally scheduled to all Base Resource customers and maintaining equity between direct and NDC customers. We request that Western develop a uniform transmission rate for all Western Base Resource customers.

The May 2004 rate proposal would result in NDC customers having to pay the equivalent of approximately \$3/MWh for Western CVP transmission and an additional charge of about \$5/MWh for CASIO transmission (low voltage) to take delivery of each MWh of Base Resource energy. The resulting payment of approximately \$8/MWh for transmission is burdensome to our ratepayers. In order to provide relief to our ratepayers from having to pay dual transmission rates, we urge Western to consider the following alternatives:

1. Develop Western's Post 2004 transmission rates that result in comparable delivery cost for Federal power for all Federal customers. Western should consolidate both Federal transmission costs and third party transmission costs for delivering base resource energy when developing its total CVP transmission revenue requirement. The combined costs should be shared by all preference

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<sup>1</sup> NCPA-NDC Members (NCPA Non-Direct Connect Members) consists of Alameda Power & Telecom, City of Biggs, City of Gridley, City of Healdsburg, City of Lodi, City of Lompoc, City of Palo Alto, Plumas-Sierra REC, Port of Oakland, Silicon Valley Power, and City of Ukiah.

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power customers (both direct connect and non-direct connect), and any other users of the CVP transmission system.

2. If alternative 1 above is found not to be feasible at this time, we urge Western to provide NDC customers relief from having to pay the \$3/MWh CVP transmission charge embedded in the Base Resource cost by removing this cost from the Base Resource charge and not collecting this cost from NDC customers.

We expect Western to minimize its costs by scheduling the CVP generation located in the ISO's control area to NDC/ISO customers. Such optimal scheduling will result in Western avoiding the ISO's export fee of approximately \$2.3/MWh. Under Western's proposed rate methodology NDC customers will still be charged approximately \$3/MWh for all Base Resource deliveries although some of these deliveries do not touch the CVP transmission system. A comparable delivery rate for federal power for all Federal customers has the potential to mitigate this inequity.

Our position, that transmission rates should result in comparable delivery costs for Federal power is also supported by:

- The Pacific AC Intertie (PACI) legislative history demonstrating the Federal intent to treat all federal customers fairly;
- Western's May 2003 conceptual rates discussions correctly recognizing that customers served on PG&E's system should not be discriminated against;
- The fact that all Federal customers would pay the same transmission charge had the Federal transmission system been fully constructed as originally proposed;
- The fact that Western correctly identified the potential transmission cost inequities and the need for mitigation in its Operational Alternatives Federal Register Notice (December 2, 2003 FRN).

Western's May 2004 rate proposal is not consistent with its earlier policy positions, is not consistent with the requirements that led to those positions, and has not met the intent of Congress in its authorization of the CVP.

With respect to Western's proposed rates for Ancillary Services (A/S), Western appears to be offering these services to its customers within its Sub Control Area (SCA), FRN pages 26375-26377, in a different manner and at different rates than it is offering to all of its other preference power customers. Western has indicated, in its rate proposal and in conversations with customers that surplus A/S will be sold at prices consistent with CAISO markets. That surplus sold at market rates includes A/S sales to the NDC customers and other preference customers that are not located in the SMUD/Western control area. As NDC customers located in the ISO control area we feel this treatment is

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discriminatory and may violate preference laws with respect to the marketing of federal preference power. It would be inappropriate to discriminate against qualified NDC preference customers who are ready, willing and able to purchase such A/S from federal hydro plants. We urge Western to remedy this discriminatory treatment on A/S sales to NDC customers by allowing proportionate access to these Ancillary Services to all of its customers at similar rates prior to selling to the market.

Finally, we believe that on a long-term planning basis Western should continue to pursue alternatives to develop the Federal transmission system to provide comparable transmission service to all preference power customers.

We appreciate Western's consideration of these comments and its dedication to equitably address these issues as it finalizes its Post 2004 rates.

Sincerely,

(signature pages follow)

Cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Ukiah, and the Plumas-Sierra REC, Port of Oakland and Silicon Valley Power

Cc: Debbie Dietz  
Rates Manager  
Western Area Power Administration

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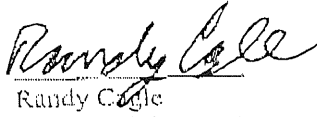
Jim Kesselburg, August 10<sup>th</sup> 2004

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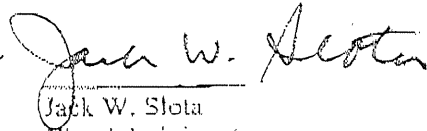
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Valerie Fong  
General Manager  
Alameda Power & Telecom  
City of Alameda



Randy Cagle  
City Administrator/  
Finance Director  
City of Biggs



Jack W. Slota  
City Administrator  
City of Gridley

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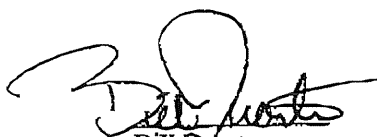
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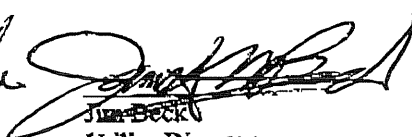
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Bill Duarte  
Electric Utility Director  
City of Healdsburg



Alan Vallow  
Electric Utility Director  
City of Lodi

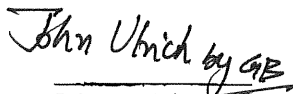



Jim Beck  
Utility Director  
City of Lompoc


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John Ulrich  
Utilities Director  
City of Palo Alto


  
Bob Marshall  
General Manager  
Plumas-Sierra REC

  
David Peixotto  
Director of Utilities  
Port of Oakland

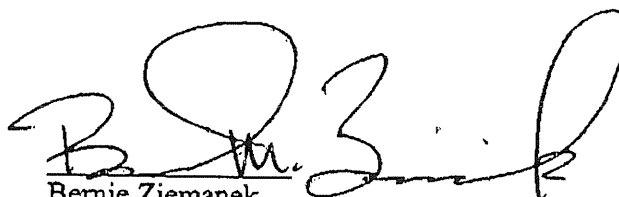
Jim Kesselburg, August 10<sup>th</sup> 2004

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Junona A. Jonas  
Director of Electric Utility  
Silicon Valley Power  
City of Santa Clara



Bernie Ziemanek  
Public Utilities Director  
City of Ukiah